

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Henderson Township	County Wexford
Audit Date 3/31/06	Opinion Date 5/30/06	Date Accountant Report Submitted to State: July 11, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) Baird, cotter and Bishop, P.C.			
Street Address 134 West Harris Street		City Cadillac	State MI
Accountant Signature 		ZIP 49601	Date 6/21/06

HENDERSON TOWNSHIP, WEXFORD COUNTY

CADILLAC, MICHIGAN

MARCH 31, 2006

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MARCH 31, 2006

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CERTIFIED PUBLIC ACCOUNTANTS

May 30, 2006

INDEPENDENT AUDITORS' REPORT

To the Township Board
Henderson Township
Wexford County
Cadillac, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henderson Township, Wexford County, Cadillac, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Henderson Township, Wexford County, Cadillac, Michigan as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Township has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* as of April 1, 2004.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henderson Township, Wexford County, Cadillac, Michigan's basic financial statements. The individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Henderson Township, a general law township located in Wexford County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Henderson Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$35,209. Of this amount, \$25,162 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$27,671, an increase of \$311 in comparison with the prior year. About 91% is available for spending at the Township's discretion.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2006 for Henderson Township. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds – Proprietary funds are used to report the same functions presented as business-type activities in government-wide financial statements. The Township does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

time. The Net Assets of the Township are \$35,209 at March 31, 2006, meaning the Township's assets were greater than its liabilities by this amount.

Henderson Township
Net Assets as of March 31, 2006

	Governmental Activities
Assets	
Current Assets	\$ 27,709
Non Current Assets	
Capital Assets	27,404
Less: Accumulated Depreciation	19,866
Total Non Current Assets	7,538
Total Assets	<u><u>\$ 35,247</u></u>
Liabilities	
Current Liabilities	<u>\$ 38</u>
Net Assets	
Invested in Capital Assets	7,538
Restricted for Specific Purposes	2,509
Unrestricted	25,162
Total Net Assets	<u>35,209</u>
Total Liabilities and Net Assets	<u><u>\$ 35,247</u></u>

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$25,162 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township decreased by \$451 or 1% in this fiscal year, which is an indicator that the Township experienced negative financial growth during the year. As a result, the Township ended the fiscal year in a slightly worse condition than when the year began.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

The following table illustrates and summarizes the results of the change in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

Henderson Township
Change in Net Assets
for the Fiscal Year Ended March 31, 2006

	<u>Governmental Activities</u>
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$ 5,531
General Revenues	
Taxes	4,249
State Grants	13,219
Interest Earnings	639
Other	<u>3,579</u>
Total Revenues	<u>27,217</u>
<u>Expenses</u>	
Legislative	1,504
General Government	21,291
Public Safety	600
Other Functions	<u>4,273</u>
Total Expenses	<u>27,668</u>
Change in Net Assets	(451)
NET ASSETS - Beginning of Year	<u>35,660</u>
NET ASSETS - End of Year	<u><u>\$ 35,209</u></u>

Governmental Activities

During the fiscal year ended March 31, 2006, the Township's net assets decreased by \$451 or 1%. The majority of this decrease represents the degree to which increases in ongoing revenues have not outstripped similar increases in ongoing expenses.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

The most significant part of the revenue for all governmental activities of Henderson Township comes from state grants.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation.

The Township's governmental activities expenses are dominated by general governmental expenses that total 77% of total expenses. The Township spent \$21,291 in fiscal year 2006 on General governmental expenses.

Business-Type Activities

The Township does not maintain any Business-Type Activities.

Financial Analysis of the Government's Funds

Governmental Funds The focus of Henderson Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Henderson Township's governmental funds reported combined ending fund balances of \$27,671. Approximately 91% of this total amount (\$25,162) constitutes unreserved fund balance. The remainder of the fund balance is reserved or designated for specific purposes and is therefore not available for new appropriation.

General Fund – The General Fund increased its fund balance by \$311 which brings the fund balance to \$27,671. Of the General Fund's fund balance, \$2,509 is reserved for telecommunication right-of-way.

Proprietary Fund The Township does not maintain any proprietary funds.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of March 31, 2006 amounted to \$7,538 net of accumulated depreciation. The total net decrease in the Township's investment in capital assets for the current fiscal year was 9% due to depreciation expense.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Henderson Township
Capital Assets as of March 31, 2006

	Governmental Activities
Building and Land Improvements	\$ 27,404
Less Accumulated Depreciation	<u>19,866</u>
Net Capital Assets	<u>\$ 7,538</u>

There were no major capital asset events during the current fiscal year.

Long-Term Debt. At March 31, 2006, the Township was not obligated for any long-term debt.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues.

These factors were considered in preparing the Township's budgets for the 2006-07 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Henderson Township at 9522 South 21 Road, Cadillac, Michigan 49601.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS
MARCH 31, 2006

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 20,829
Receivables	
Taxes	398
External Parties(Fiduciary Funds)	5
Due from Other Governments	<u>6,477</u>
Total Current Assets	<u>27,709</u>
<u>CAPITAL ASSETS</u>	
Building and Land Improvements	27,404
Less Accumulated Depreciation	<u>19,866</u>
Net Capital Assets	<u>7,538</u>
 TOTAL ASSETS	 <u>35,247</u>
 <u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	<u>38</u>
 <u>NET ASSETS</u>	
Invested in Capital Assets	7,538
Restricted for Telecommunications Right-of-Way	2,509
Unrestricted	<u>25,162</u>
 TOTAL NET ASSETS	 <u>\$ 35,209</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	REVENUES
					AND CHANGE IN NET ASSETS
					TOTAL
					GOVERNMENTAL
					ACTIVITIES
<u>PRIMARY GOVERNMENT</u>					
<u>GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 1,504	\$ 0	\$ 0	\$ 0	\$ (1,504)
General Government	21,291	5,531	0	0	(15,760)
Public Safety	600	0	0	0	(600)
Other Functions	4,273	0	0	0	(4,273)
Total	\$ 27,668	\$ 5,531	\$ 0	\$ 0	(22,137)
<u>GENERAL REVENUES</u>					
Taxes					4,249
State Grants					13,219
Interest Earnings					639
Other					3,579
Total General Revenues					21,686
Change in Net Assets					(451)
<u>NET ASSETS</u> - Beginning of Year					35,660
<u>NET ASSETS</u> - End of Year					\$ 35,209

The accompanying notes are an integral part of the financial statements.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN
GOVERNMENTAL FUNDS
BALANCE SHEET
MARCH 31, 2006

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 20,829
Taxes Receivable	398
Due From Other Governments	6,477
Due From Other Funds	5
Total Assets	<u>\$ 27,709</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accounts Payable	<u>\$ 38</u>
 <u>FUND BALANCE</u>	
Reserved for:	
Telecommunications Right-of-Way	2,509
Unreserved	
Undesignated	25,162
Total Fund Balance	<u>27,671</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 27,709</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
MARCH 31, 2006

Total Fund Balance for Governmental Funds	\$ 27,671
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Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

Building and Land Improvements	\$ 27,404	
Accumulated Depreciation	(19,866)	7,538

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 35,209

The accompanying notes are an integral part of the financial statements.

HENDERSON TOWNSHIP, WEXFORD COUNTY

CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED MARCH 31, 2006

	GENERAL FUND
<u>REVENUES</u>	
Taxes	\$ 4,249
State Grants	13,219
Charges for Services	4,936
Interest and Rents	1,234
Other Revenues	3,579
Total Revenues	27,217
<u>EXPENDITURES</u>	
Legislative	1,504
General Government	20,529
Public Safety	600
Other Functions	4,273
Total Expenditures	26,906
Net Change in Fund Balance	311
<u>FUND BALANCE</u> - Beginning of Year	27,360
<u>FUND BALANCE</u> - End of Year	\$ 27,671

The accompanying notes are an integral part of the financial statements.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
MARCH 31, 2006

Net change in Fund Balance - Total Governmental Funds	\$ 311
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	<u>(762)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (451)</u></u>

The accompanying notes are an integral part of the financial statements.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
MARCH 31, 2006

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash	<u>\$ 5</u>
<u>LIABILITIES</u>	
Due to Other Funds	<u>\$ 5</u>

The accompanying notes are an integral part of the financial statements.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Henderson Township is a general law township located in Wexford County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the Township adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Henderson Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, Henderson Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

HENDERSON TOWNSHIP, WEXFORD COUNTY
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NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Township's investment policy allows the Treasurer to invest funds in certificates of deposit which mature in one year or less.

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes, one-third of county taxes, and 50% of Cadillac Area Public School's taxes are levied and due July 1, and become delinquent after September 15. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

The 2005 taxable valuation of Henderson Township totaled \$5,003,555, on which ad valorem taxes levied consisted of 0.8494 mills for Township operating purposes. This levy raised approximately \$4,249 for operating purposes.

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as required.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government, are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building and Land improvements	20
Public domain infrastructure	20
Vehicles	10
Equipment	5-10

Henderson Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township will capitalize and depreciate infrastructure beginning April, 1, 2004, in accordance with the Township's capitalization policy.

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE

A. Budgetary Information

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on April 21, 2005.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are on deposit with Fifth Third Bank in Cadillac, Michigan and Wexford Community Credit Union in Cadillac, Michigan.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006, none of the government's bank balance of \$21,718 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

B. Receivables

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

C. Capital Assets

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, being depreciated				
Building and Land Improvements	\$ 27,404	\$ 0	\$ 0	\$ 27,404
Less accumulated depreciation for:				
Building and Land Improvements	19,104	762	0	19,866
Governmental activities capital assets, net	<u>\$ 8,300</u>	<u>\$ (762)</u>	<u>\$ 0</u>	<u>\$ 7,538</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

 General Government \$ 762

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2006.

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2006, were:

<u>FUND</u>	INTERFUND RECEIVABLES	INTERFUND PAYABLES
General Fund	\$ 5	\$ 0
Fiduciary Funds		
Current Tax Collection Fund	0	5
	<u>\$ 5</u>	<u>\$ 5</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

E. Long-Term Debt

At March 31, 2006, the Township was not obligated for any long-term debt.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006

F. Fund Balance Reserves

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. These reserves are detailed in the following schedule:

FUND BALANCE/NET ASSETS

Reserved

General Fund

Telecommunications Right-of-Way \$ 2,509

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Due from Other Governments

Amounts due from other governments consists of \$2,898 in state-shared revenues and \$3,579 from South Branch Township.

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2006

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<u>REVENUES</u>				
Taxes	\$ 3,500	\$ 3,500	\$ 4,249	\$ 749
State Grants	13,000	13,000	13,219	219
Charges for Services	5,500	5,500	4,936	(564)
Interest and Rents	450	450	1,234	784
Other Revenues	200	200	3,579	3,379
Total Revenues	22,650	22,650	27,217	4,567
<u>EXPENDITURES</u>				
Legislative				
Township Board	2,012	2,012	1,504	508
General Government				
Supervisor	1,400	1,400	1,382	18
Assessor	3,100	3,100	2,657	443
Clerk	1,646	1,674	1,674	0
Board of Review	500	500	328	172
Treasurer	1,863	1,863	1,863	0
Building and Grounds	2,375	2,466	2,466	0
Cemetery	6,824	10,259	10,159	100
Public Safety				
Fire Department	550	600	600	0
Other Functions				
Insurance and Bonds	3,250	3,250	3,201	49
Employee Benefits	1,010	1,072	1,072	0
Total Expenditures	24,530	28,196	26,906	1,290
Net Change in Fund Balance	(1,880)	(5,546)	311	5,857
<u>FUND BALANCE</u> - Beginning of Year	23,976	23,976	27,360	3,384
<u>FUND BALANCE</u> - End of Year	\$ 22,096	\$ 18,430	\$ 27,671	\$ 9,241

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED MARCH 31, 2006

	BALANCE			BALANCE	
	4/1/2005	ADDITIONS	DEDUCTIONS	3/31/2006	
<hr/>					
<u>ASSETS</u>					
Cash	\$ 5	\$ 163,399	\$ 163,399	\$ 5	
<hr/>					
<u>LIABILITIES</u>					
Due to Other Funds	5	3,853	3,853	5	
Due to Other Organizations and Individuals	0	727	727	0	
Due to Other Governments	0	158,819	158,819	0	
<hr/>					
Total Liabilities	\$ 5	\$ 163,399	\$ 163,399	\$ 5	
<hr/>					

HENDERSON TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF 2005 TAX ROLL
MARCH 31, 2006

TAXES ASSESSED

County	\$ 80,717	
Township	4,249	
School		
Cadillac Area Public Schools	58,928	
Intermediate School		
Wexford-Missaukee	<u>29,827</u>	173,721

TAXES COLLECTED

County	75,170	
Township	3,851	
School		
Cadillac Area Public Schools	56,233	
Intermediate School		
Wexford-Missaukee	<u>27,034</u>	162,288

TAXES RETURNED DELINQUENT

County	5,547	
Township	398	
School		
Cadillac Area Public Schools	2,695	
Intermediate School		
Wexford-Missaukee	<u>2,793</u>	<u>\$ 11,433</u>

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

May 30, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
Henderson Township
Wexford County
Cadillac, Michigan

During the course of our audit of the financial statements of Henderson Township for the year ended March 31, 2006 we noted the following list of items which we feel deserve comment:

Capitalization Policy

The Township should officially adopt and record in the minutes its' Capitalization Policy of \$1,000. We have provided an appropriate sample policy for the board to consider for adoption.

GASB 34

The Governmental Accounting Standards Board has issued Statement #34. We have assisted the Township with complying with the GASB 34 requirements of the State of Michigan and GASB. The financial statements are quite different as a result of this drastic change. We recommend the board review the new financial statements, and we are available to help explain the changes in detail, if needed.

Approval and Documentation for Expenditures

We see where expenditures are approved by the supervisor before being written, but we recommend the board be presented a listing of bills and officially approve expenditures in the board minutes. This will also help to ensure supporting documentation for each expenditure is maintained in the files of the clerk. The clerk should have a source document for each and every check written, including payroll and expense reimbursements. As an added internal control, the supervisor or one of the trustees could initial each source document to indicate it was reviewed and approved.

Telecommunications Right-of-Way State Funding

The Township receives money from the state related to Telecommunications Right-of-Way. The state has specific guidelines on the use of those funds, most allowable uses relate to Road Right-

of-Way Expenditures. The state has a letter outlining allowable and unallowable uses of these funds and we can provide you a copy if you desire.

We would like to thank the board for its continued confidence in our firm and to thank the township officers for their cooperation.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

May 30, 2006

LETTER OF REPORTABLE CONDITIONS

To the Township Board
Henderson Township
Wexford County
Cadillac, Michigan

In planning and performing our audit of the financial statements of Henderson Township, Wexford County, Cadillac, Michigan for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.